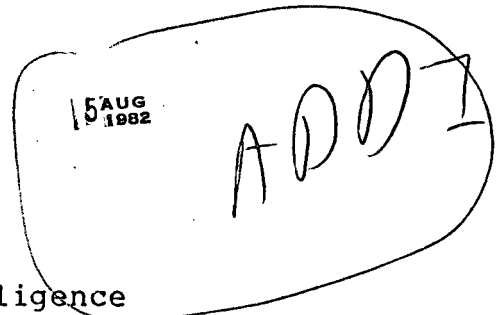


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MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM : Richard J. Kerr
Acting Deputy Director for Intelligence

SUBJECT : Progress on Community Estimate of Soviet Oil
Prospects [redacted]

25X1

1. Action. None; for your information only. [redacted]

25X1

2. Background. To date, the status of an Intelligence Community estimate of Soviet oil prospects remains the same as we indicated to you in our memoranda of 28 June and 1 July (see attachments). OGI, SOVA, [redacted] are making good progress on an updated Agency assessment, and a typescript report will appear by early January 1983. [redacted] has also convened a meeting of your Economic Intelligence Committee for 19 August to review the Senior Review Panel report. In view of your agreement not to begin the Community effort until the first quarter of 1983, the National Intelligence Council has not yet formally scheduled an estimate or designated an NIO to chair it. [redacted]

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Attachment:
As stated

DIA review
completed.

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SUBJECT: Progress on Community Estimate of Soviet Oil
Prospects

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OGI/ED/PSA (4 August 1982)

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1 July 1982

MEMORANDUM FOR: Deputy Director for Intelligence
FROM: Director of Central Intelligence
SUBJECT: PFIAB Meeting - 8 July 1982

For the PFIAB meeting I would like to be updated on the two estimate judgments which seem to raise the most questions, namely, the level of Soviet military expenditures and Soviet oil prospects. I have your paper of 28 June and concur in the idea of postponing the Community estimate of the Soviet oil prospects until the first quarter of 1983. Meanwhile, I would like to get a comparison of the prevailing estimates, ours, DIA's [redacted] On that score I would like to know the result of briefing of and consultation with Senator Schmitt in response to his offer to provide Soviet oil estimates which he claims have been closer to actual experience than ours.

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William J. Casey

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1 JUL 1982

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA : Deputy Director for Intelligence

FROM : [REDACTED]
Director of Global Issues

25X1

SUBJECT : PFIAB Meeting (8 July 1982)--Soviet Oil
Prospects [REDACTED]

25X1

1. Action. None; this memorandum is for your information only. [REDACTED]

25X1

2. Background. In response to your request, I am attaching copies of previous comparisons of CIA's estimates of Soviet oil prospects (as published in prior years) with those of DIA.

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[REDACTED]
Because of the urgency of the request, these are "off the shelf" items. We will follow up early next week with a unified table showing a comprehensive comparison. [REDACTED]

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3. As you know, the Agency is now in the process of revising the estimate. To present a new forecast for the 1985-1990 period would be premature. It is clear based on the new research done to date by SOVA and OGI, however, that the revised estimate will be closer to that of DIA in terms of production and reserves, but still lower. As the analysis is now shaping up, our conclusions would include:

- o that oil production is currently at or near its peak;
- o that the Soviets have only an outside chance of reaching their target production of 12.6 million b/d of crude by 1985--and then only by dint of massive additional investment in the oil industry;

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SUBJECT: PFIAB Meeting (8 July 1982)--Soviet Oil Prospects []

25X1

- o that, though the USSR remains rich in hydrocarbons, in the absence of new discoveries of large giant or supergiant fields in accessible regions, production by 1990 could fall by one to two million b/d below current levels; and
- o that the cost of extracting oil and delivering it where Moscow needs it to go is increasing rapidly; the rapidly increasing costs of oil to the USSR may well be more important than the oil volume issue. []

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4. DIA's estimate remains essentially the same as it has always been: that the Soviets will face no decline in oil production during this decade. Most other estimates--with a few exceptions--seem to cluster near our current views. []

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5. Last year, Senator Schmitt criticized previous Agency estimates of Soviet oil prospects for being too pessimistic--the result of their not being based on geologic and engineering analysis. Shortly afterwards, a representative of my office met with the Senator informally and briefed him on the key roles

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[] Senator Schmitt seemed pleased with the information, and noted that he had been concerned that the Agency was not making use of the the kinds of data that could be gleaned from Soviet scientific literature and from the technical collection systems. In fact, as the Senior Review Panel report points out, we have been using all of these tools and sources to increasingly good advantage since the late 1970s. []

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Attachments:
As stated

SUBJECT: PFIAB Meeting (8 July 1982)--Soviet Oil Prospects

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OGI/ED/PSA (1 Jul '82)

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CIA VS DIA: A COMPARISON OF SOVIET OIL ESTIMATES

- o CIA believes, but evidently DIA does not, that the real Soviet oil crisis (indeed, energy crisis) is the rapidly growing marginal cost of finding and producing oil and other energy sources -- and not a lack of hydrocarbon resources.
- o DIA assumes the Soviets will invest whatever they must to produce more oil, but offers no discussion or estimate of what the opportunity cost of such a decision would be for the economy as a whole or even the defense industrial sector.

Oilfield development costs in the USSR have been rising over the past five years at the same time that the production rate has been nearly stagnant. There are also numerous signs that indicate that the Soviets are not spending as much as they can in West Siberia.

- o As one case in point, DIA argues that drilling efficiency can increase substantially through increased labor productivity. In the past, the Soviets have almost always failed to achieve such gains in any sector of their economy. Indeed, their resort to "increasing labor productivity" has usually been used when appreciably more investment capital and labor are not available.
- o DIA ignores the peculiar logistic and labor problems that have frustrated Soviet attempts to increase the rate of development of Siberia.
- o The paper asserts that the Soviet oil industry is cohesively organized, extremely expert, and the possessor of enough political clout to do what it wants. There is no evidence to support this.
- o DIA essentially takes the Soviets at their word for the size and recovery potential of existing reserves and undiscovered oil resources. Without disputing that the USSR is very rich in oil, analysis by CIA and a number of non-governmental oil experts yields significantly lower figures.

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How is the DIA Estimate Different from CIA?

- Not a hard -- or numerical -- estimate.
- Argues that Soviets will produce enough oil over the next 20 years to satisfy any needs they might have.
 - Takes Soviets at their word in saying there are no problems.
 - Assumes Soviet energy sector is well-run, highly efficient.
 - Assumes Soviets will -- and can -- invest whatever is needed to keep output up.
 - Only hard evidence is drilling data.
 - DIA believes Soviets accomplish tasks that they plan, and thus have set realistic production goals for oil.

SOURCE: Talking points provided D/NFAC 24 November 1981.

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SOVA Submission (1 July 1982)

Recent Projections of Soviet Oil Production¹

	(Million b/d)	
	<u>1985</u>	<u>1990</u>
Central Intelligence Agency ²	11.0-12.0	9.0-11.0
Defense Intelligence Agency (September 1981)	12.4-12.9	NA
OECD International Energy Agency (April 1982)	11.2-12.4	10.8-12.4

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1. Including gas condensate.

2. This projection is a working projection only. It will be revised upon completion of the joint OGI/SOVA research program.

SOVIET OIL ESTIMATES: DIA/CIA DIFFERENCES*

	<u>DIA Position</u>	<u>CIA Position</u>
Planning and Execution	The Soviet petroleum industry is well organized and tightly-controlled. The Soviets have far-reaching plans and know their resource base in detail. They are capable of attaining the goals they set for themselves.	The Soviets have been taken by surprise at the steepness of oil production declines in various areas and the magnitude of investment required to maintain or increase production at major fields. Soviet expeditionary force drilling in West Siberia, for example, is an eleventh hour attempt to forestall unanticipated production declines and falling discovery rates.
Oil Production Profile	Soviet oil production will reach the goal of 12.2 million b/d in 1981. The rate of growth in production will slow gradually through the mid and late 1980s, but in the 1990s the USSR will have the capability to increase production substantially.	In 1981 CIA concluded that Soviet oil production would likely remain at about 12 million b/d for one to three years and then decline to 10 to 11 million b/d by 1985, and perhaps 7 to 9 million b/d by 1990. Our current best estimate is that the Soviets will not meet 1985 target of 12.4-12.6 million b/d, with output hovering somewhere between 11 and 12 million b/d. By 1990, output will have fallen to 10-11 million b/d. We believe the rate of growth in output is now approaching zero.

* The DIA position is taken from "Analysis of the Soviet Union's Energy Industry and Outlook Through 1985" (September 1981).

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Oil Reserves

Soviet oil production plans are a key indicator of the size of Soviet oil resources. The recoverable and accessible oil reserves of the Soviet Union amount to some 80-85 billion barrels or more of crude and natural gas liquids. Half of the reserves are in West Siberia, where drilling density is extremely sparse and unevenly distributed by Western standards. Thus, more drilling should yield large reserves increases. Moreover, increasing oil prices are moving more and more marginally economic oilfields into the proved column.

The Soviets' own reserves estimates may support DIA figures. Soviet data, however, must be carefully scrutinized. Less than half of Soviet reserves are of high quality, and the Soviets tend to use unrealistically high recovery factors in their field reserves estimates. For this and other reasons, Soviet oil production plans are unrealistic. Moreover, basin to basin comparisons of drilling density are likely to prove highly misleading and are at best a poor gauge of reserves potential. Oilfields which were marginal economically at one-third of today's oil prices are likely to remain marginal today from the standpoint of their contribution to oil output through 1990, and perhaps beyond.

Prospects for Major Producing Regions and Key Oilfields

DIA does not address these questions in any detail. On the issue of production and reserves in the supergiant Samotlor oilfield for example, DIA bases its estimate largely on scaling factors taken from open sources.

CIA has done in-depth analysis of a number of the major producing fields that make up more than half of current Soviet oil output. Most of these fields are either in decline or barely holding level in the face of heavy Soviet investment.

Oil Production Capacity

The Soviets have a substantial amount of strategic, unused capacity in oilfields drilled and hooked up but not producing. The Soviets could be producing 13 million b/d or more right now if they so desired. When the Soviets produce less than their official

The Soviets are now producing at maximum technically feasible rates considering drilling constraints and equipment and manpower limitations. The Soviets are experiencing serious shortages throughout their economy and have cut back their export commitments to the COMECON countries with no indication more oil might be available at a higher price. If the

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plan, they have merely adjusted production downward because they needed less oil than originally anticipated.

Soviets have a substantial number of oilfields drilled and not producing, where are they?

Investment

The Soviets will invest whatever they must to produce more oil.

The real Soviet energy crisis is the rapidly growing marginal cost of finding and producing oil -- and not a lack of hydrocarbon resources. The cost of producing more oil must be carefully weighed against the opportunity cost for the economy as a whole and how it might affect the defense industrial sector.

Drilling

Drilling efficiency in the USSR can increase substantially through increased labor productivity. Thus, the Soviets will be able to meet their 11th Five-Year Plan goals -- depending on a 60 percent increase in labor productivity during 1981-85.

The history of Soviet planning is filled with instances where increasing labor productivity has been postulated to fill gaps left by inadequate investment capital and labor. There are few instances where the Soviets have been able to achieve such gains in any sector of their economy -- including the oil industry.

Emphasis on Gas v. Oil

The increasing Soviet emphasis on exploration and development of natural gas rather than oil reflects the immensity of the gas resource base and the better opportunity cost represented by investment in gas.

The Soviets have not made the large high-quality oil finds necessary to ensure continued production capacity growth in the 1980s. Lagging oil discoveries in older producing areas and practical limits to West Siberian development have freed up resources that are now being utilized in the gas sector. Investment in the gas sector is not likely to occur rapidly enough to close the overall Soviet energy gap in the 1980s.

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6 JUN
1982

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA : Deputy Director for Intelligence

FROM : 
Director of Global Issues

25X1

SUBJECT : Soviet Oil Production Estimates

1. Action. None; this memorandum is for your information only.
2. Background. Pursuant to your request of last week, attached is a table comparing past CIA estimates of Soviet oil production to those of other government agencies

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Attachment:
As stated

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SUBJECT: Soviet Oil Production Estimates

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OGI/ED/PSA: [redacted] (6 Jul '82)

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RECENT PROJECTIONS OF SOVIET OIL PRODUCTION
(million barrels per day)

Organization	1985	1990
Soviet Union Official Plan	Originally 12.4 to 12.9; now 12.6.	None as yet.
US GOVERNMENT AGENCIES		
CIA--Original estimate (March 1977)	Oil production will peak no later than the early 1980s at 11 to 12 and will decline rapidly to 8 to 10 by 1985 (from chart in text).	"...output may continue to fall sharply, level off, or perhaps even increase..."
Last published 1977 estimate (May 1977)	Between 10 and 11 and falling rapidly.	Unless large amounts of new oil are found, produc- tion will decline to 7 to 9 by 1990.
Provisional*	Little or no growth beyond present level of 12.2; production is now near its peak, and plan will be extremely dif- ficult to attain.	Production could decline by as much as 1 to 2 million b/d from the 1985 rate.
DIA (September 1981)	Believes plan goals (originally 12.4 to 12.9, now 12.6) are easily achievable.	Production will level off in the late 1980s and increase after 1990; Soviets will make plan for 1990.
US Office of Technology Assessment (November 1981)	Best case 12.9, worst case 11. Believes produc- tion will likely be held stable at around the 1980 rate of 12.1.	Best case: production will be held stable at 1985 level. Worst case: absolute decline.

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1982

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM : Robert M. Gates
Deputy Director for Intelligence

SUBJECT : Senior Review Panel Proposal for a Community
Estimate of Soviet Oil Prospects []

25X1

1. Action. None; for your information only. []

25X1

2. Background. I endorse the recommendation of the Senior Review Panel (SRP) that an Intelligence Community estimate of Soviet oil prospects be initiated. I would propose, however, that action be postponed until the first quarter of 1983--by which time the DDI will have completed its own re-analysis of the Soviet oil situation (see attachment). []

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3. At the present time, an interoffice project team, under the general direction of [] and [] consisting of analysts from OGI, SOVA, [] is taking a fresh look at the entire Soviet oil question. Pursuant to John McMahon's request, the team will present an internal typescript assessment by early January 1983. The final report will incorporate not only new analysis by CIA but also, where appropriate, work done by []

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[] Preliminary reports prepared by members of the team are sent to DIA and other interested agencies for informal review. I believe it would be premature for the Agency to table its views on Soviet oil for a Community estimate until after this project is complete. []

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4. As the SRP report notes, within the Intelligence Community only CIA and DIA have mounted a significant effort on Soviet oil production. By default, these two agencies would be the principal players in any National Intelligence Estimate. Since 1980, CIA and DIA analysts have exchanged views regularly. There is now broader agreement on the basic data and analysis but still substantial disagreement over the conclusions to be drawn. The other Community members, however, have a

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SUBJECT: Senior Review Panel Proposal for a Community
Estimate of Soviet Oil Prospects [redacted]

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continuing interest in the problem and, particularly, its policy implications. Several months ago, [redacted] convened a meeting of your Economic Intelligence Committee (EIC) to review CIA's current analytic effort on Soviet oil. He plans to reconvene that committee to review the SRP report and to obtain any further guidance. We have also briefed your Military-Economic Advisory Panel (MEAP) on our program. Both the EIC and MEAP have informally expressed approval of our proposed plan of attack and schedule. [redacted]

25X1

5. On the whole, I believe that a Community estimate would be a healthy exercise. Had this been done earlier, many of the problems that have emerged over the past two years might have been avoided. [redacted]

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Robert M. Gates

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OGI/ED/PSA: [redacted] (25 Jun '82)

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Office of the
DEPUTY DIRECTOR FOR INTELLIGENCE

June 24, 1982

NOTE FOR: D/CGI

Jim, *{ Per our conversation }*

Bob would like you all to respond to the attached question from the DCI. Your response should contain input from SOVA and be coordinated with the NIC. It should be to Bob by cob 25 June. Your response should be in the form of a memo, for the DDI's signature, to the DCI. Thanks.



DDI Action Officer

cc: EO/SOVA
C/NIC

(I believe everyone has a copy of the SRP paper on the Intelligence Performance in Soviet and Production -)

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